10. Telco Business Definition

SNET also proposes to limit the business purpose of the Telco to supporting the need for telecommunications services and unbundled network elements of CLECs and IXCs certified to operate in Connecticut. SNET submits that its proposal will benefit both consumers and competitors by divesting the Telco of its retail activities and allowing the Telco to concentrate fully on its responsibilities as a wholesale services provider to CLECs and IXCs.

As noted above, the Department addressed the issue of the Telco's withdrawal from the retail market and concluded that such an act is permissible under both state and federal statutes. The subject of business definition, however, is broader than simply the question of retail marketing and warrants comment for future reference. The Department has expressed the opinion in earlier proceedings that the responsibility for defining a business enterprise and accepting accountability for its consequent performance is the responsibility of management. State and federal law imbue the Department with only marginal prescriptive powers in matters of organizational design. The role accorded the Department in organizational design is further limited to issues of abuse evidenced in affiliate relationships involving regulated business units and nonregulated enterprises that share common ownership.

Historically, the Department has evidenced significant interest in the organizational structures proposed by SNET for its subsidiary business units. In large part the Department's interest centered on the scope of services performed by the Telco on behalf of the nonregulated subsidiaries and the reimbursement practices associated with those services. In the past two decades, both the scope and scale of services performed on behalf of nonregulated subsidiaries increased significantly in response to the organizational structure erected by SNET that emphasized the benefits of shared operational, administrative and support services.

SNET has proposed in this proceeding to implement an organizational structure that emphasizes specialization at the market level for its wholesale and retail functions. In order to maximize the benefits of that specialization SNET proposes to assume responsibility at the corporate level for various administrative and support functions that are common to all business units. This will afford SNET the opportunity to realize the highest level of scale economies in areas that are not service critical but reasonably important to the efficient operation of the corporation. With implementation of this program, the Telco will relinquish any current responsibilities for support of nonregulated business units thereby reducing, if not completely eliminating, direct transactions between SNET's regulated and nonregulated business units.[19]

[19] SAI will, under the terms and conditions of the Proposal, purchase for resale telecommunications services and unbundled network elements from the Telco. These transactions can be lawfully conducted by use of generally available wholesale tariffs, affiliate service agreements or negotiated interconnection agreements. SNET has expressed its intent in this proceeding to employ affiliate service agreements for transactions between SNET and the Telco and SAI for administrative support

After consideration of the proposed realignment of administrative responsibilities between the Telco and SNET, the Department finds that adoption of SNET's proposal reduces the risk of cross-subsidization between regulated and nonregulated enterprises. Furthermore, the reorganization of roles and responsibilities does not constitute a threat to the development of competition. Accordingly, the Department will endorse the proposed realignment of both market and administrative responsibilities as being in the public interest and permit implementation by SNET at the earliest possible opportunity.

11. Telco Affiliate Transactions

In conjunction with the envisioned realignment of responsibilities, SNET proposes to conduct all business transactions between the Telco and SAI and the Telco and SNET in accord with Parts 32 and 64 of FCC regulations as amended by the 1996 Federal Act. SNET's proposal reflects the importance of current accounting rules to ensure fair and equitable competition in the evolving telecommunications market. These rules are considered by the regulatory community to be critical to ensuring business relationships between affiliate do not produce unwarranted advantages in a competitive marketplace.

Under the terms of the SNET proposal, the Telco will remain a regulated enterprise with a significant role in the development of a competitive telecommunications market. The Proposal does not in any way diminish the importance of the Telco to plans and strategies of the other participating CLECs. In the proposed reorganization the Telco will continue to serve as the principal source of telecommunications technology and infrastructure for virtually every CLEC operating in Connecticut for the near term. Consequently, the scope and scale of business dealings between the Telco and SAI is of prime interest and concern to every prospective entrant to the Connecticut market. The Department is sensitive to the concerns expressed by competitors in this proceeding and must assure them and the public that transactions conducted between the two affiliated business units will conform to the available rules and regulations.

As discussed above the Department concluded that any assets transferred from the Telco to SAI must be done in accordance with rules set forth in Parts 32 and 64 of the FCC regulations and must be valued at their depreciated book or market price, whichever of the two is higher. This policy ensures the public will benefit at least nominally from the proposed reorganization. Likewise, the Department will order similar accounting treatment for any assets transferred to SNET by the Telco in consequence of consolidating administrative and directory publishing activities at the corporate level. The value accrued to the Telco for any assets transferred to SAI or to SNET in

---

services; and wholesale tariffs and negotiated interconnection agreements for business relationships between SAI and the Telco. The differentiation of contractual tools used between subsidiaries and those used in relationships with the corporate parent illustrates the scope of reorganization and specialization envisioned by SNET with its proposal.

conjunction with this proposal will be credited to the depreciation reserve account of the Telco.

The policies adopted by the Department and the FCC have sought to ensure against any abuse of the affiliate relationship by either the corporate parent or the unregulated affiliate not subject to the rules and regulations of this Department or the FCC. The strictures placed upon affiliate relationships have generally focused on the role and relationship of any business unit or corporate entity to the regulated business unit. In instances where the regulated business unit is not a party to a business arrangement the Department has generally shown limited interest. That policy remains unchanged by enactment of both Public Act 94-83 and the 1996 Federal Act.

Public Act 94-83 is silent on the issue of affiliate interests. In marked contrast, the 1996 Federal Act devotes considerable time to the subject of affiliate transactions involving Bell Operating Companies, Exempt Holding Companies and Registered Holding Companies.[20] Section 272(b) of the 1996 Federal Act outlines five structural and transactional standards that must be satisfied by any proposed affiliate relationship to warrant acceptance of the RBOC's participation by the regulatory community. The Department has carefully considered those tests and has concluded that they merit adoption in this proceeding to serve as a benchmark for evaluating the scope of the proposed relationship and the scale of the envisioned transactions.

Section 272(b) of the 1996 Federal Act seeks to provide the safeguards essential to full and fair competition by an ILEC in a competitive marketplace. It presumes that any affiliate entering into a business relationship with the ILEC will: a) be subject to substantially less regulation than that accorded the ILEC; b) experience a substantially higher competitive threat level than the ILEC; and c) be relatively vulnerable to influence. The standards set forth in §272(b) of the 1996 Federal Act are thought by some members of the telecommunications community to be excessive and biased against the ILECs. The Department has given serious consideration to this concern and finds nothing presented in §272 (b) of the 1996 Federal Act to be excessive, discriminatory or patently unfair to those subject to the standards set forth therein. The Department considers the standards set forth as reasonable and proper for use in this proceeding and specifically applicable to the proposal set forth by SNET.

To satisfy the conditions set forth in §272(b)(1) of the 1996 Federal Act, SNET must certify to the Department that it will operate SAI now and in the future as an independent operating unit from the Telco. Any failure to demonstrate that SAI is an independent operating unit will be considered sufficient cause for the Department to rescind SAI's CPCN and initiate a reexamination of the Department's actions in this Decision. SNET has proposed, and reaffirmed in the testimony of its witnesses, that SAI will function as an independent business unit serving only retail end-user

[20] SNET does not fall into any of these classifications and, therefore, not legally subject to the provisions outlined in §103 and § 272 of the 1996 Federal Act unless the Department asserts its authority under §261(c) of the 1996 Federal Act and deems application of the Section to SNET as necessary to further competition in the provision of telephone exchange service or exchange service.

customers. Similarly, representations have been made in this proceeding that the Telco will restrict its business interests to the wholesale market supporting only CLECs and IXCs. These attestations of SNET and SAI management offer sufficient evidence to conclude that SAI will operate as an independent business unit in compliance with §272(b)(1) of the 1996 Federal Act.

To satisfy the conditions set forth in §272(b)(2) of the 1996 Federal Act, SNET must certify to the Department that SAI will maintain, books, records, and accounts in the manner prescribed by the Department and the FCC separate from the books, records and accounts maintained by the Telco. Any failure by SNET at the time of a corporate audit by this Department to demonstrate that SAI maintains independent financial records or that such records fail to conform with the requirements of this agency will be considered sufficient cause for the Department to rescind SAI's CPCN and initiate a reexamination of the Department's actions in this Decision. SNET acknowledged in its proposal, and reaffirmed in the testimony of its witnesses that SAI will comply with the requirements set forth by this section of the 1996 Federal Act. The Department will consider that sufficient evidence of intent. The warranties of both SNET and SAI management are sufficient to conclude that SAI will comply with the financial accounting requirements set forth in §272(b)(2) of the 1996 Federal Act.

To satisfy the conditions set forth in §272(b)(3) of the 1996 Federal Act, SNET must certify to the Department that SAI will have separate officers, directors and employees from the Telco. Any failure by SNET to maintain separate officers, directors and employees from the Telco will be considered sufficient cause for the Department to rescind SAI's CPCN and initiate a reexamination of the Department's actions in this Decision. SNET acknowledged in its proposal, and reaffirmed in the testimony of its witnesses, that SAI will comply with the requirements set forth by this section of the Act. The Department will consider that sufficient evidence of intent. The warranties of SNET and SAI management are sufficient to conclude that SAI will comply with the managerial requirements set forth in §272(b)(3) of the 1996 Federal Act.

To satisfy the conditions set forth in §272(b)(4) of the 1996 Federal Act, SNET must certify to the Department that SAI will not obtain credit under any arrangement that would permit a creditor, upon default, to have recourse to the assets of the Telco. Any failure by SNET to maintain such legal protections for the Telco will be considered sufficient cause for the Department to rescind SAI's CPCN and initiate a reexamination of the Department's actions in this Decision. SNET acknowledged in its proposal, and reaffirmed in the testimony of its witnesses, that SAI will be capitalized and funded in a manner that complies with the requirements set forth by this section of the 1996 Federal Act. The Department will consider that sufficient evidence of intent. The warranties of both SNET and SAI management are sufficient to conclude that SAI will comply with the requirements set forth in §272(b)(4) of the 1996 Federal Act.

To satisfy the conditions set forth in §272(b)(5) of the 1996 Federal Act, SNET must certify to the Department that SAI will conduct all transactions with the Telco on an arm's length basis and with such transactions reduced to writing and available for public inspection. Any failure by SNET to ensure such provisions are made in the business arrangements between SAI and the Telco will be considered sufficient cause for this Department to rescind SAI's CPCN and initiate a reexamination of the Department's actions in this Decision. SNET acknowledged in its proposal, and reaffirmed in the testimony of its witnesses, that SAI will avail itself of general tariffs of the Telco and/or a negotiated interconnection agreement to govern its relationship with the Telco. Both of these administrative mechanisms comport with requirements set forth by §272(b)(5) of the 1996 Federal Act. The Department will consider that sufficient evidence of intent. The warranties of both SNET and SAI management are sufficient to conclude that SAI will comply with the transactional framework set forth in §272(b)(5) of the 1996 Federal Act. Furthermore, SAI and the Telco will be directed to file a negotiated interconnection agreement for review with this Department no later than 90 days prior to the filing of SAI's first retail local service tariff.

In summary, the Department finds that the proposed plan of reorganization and affiliate relationships is consistent with the requirements set forth in §272(b) of the 1996 Federal Act and that the public's interest in the proposed business relationships between the Telco and SAI is sufficiently protected. Accordingly, the Department approves SNET's Plan (with the associated modifications discussed above) until such time as it can be demonstrated that the proposed organizational structure has impeded the development of competition and/or does not comport with the requirements set forth in §272(b) of the 1996 Federal Act. The Department will also permit SNET to conduct a range of business transactions and services between, and for, its subsidiary business units until such time as it can be demonstrated that such transactions do not comport with §272(b)(5) of the 1996 Federal Act.

VII. FINDINGS OF FACT

1. This proceeding reflects the Department's need to examine potential consequences of adoption of any financial, structural and/or operational strategies presented by SNET as responses to material changes in state and federal telecommunications policy.

2. No specific statutory provisions exist that prescribe or preclude SNET from segregating its retail and wholesale functions into two independently-operated business units.

3. Management must be permitted to manage the affairs of the business without undue and unwarranted regulatory involvement.

4. Any changes in corporate strategy and/or business unit definition are the sole responsibility of that Board of Directors and its management designees consistent with the body of corporate law governing such decisions.

5. No compelling reason or evidence exists that requires the Department to intercede in SNET's corporate realignment of marketing and customer service responsibilities between the Telco and SAI.

6. SNET will remain accountable for the actions of the Telco and SAI, irrespective of the form of regulatory treatment accorded them under federal and state statutes.

7. A successor includes another corporation which by a process of amalgamation, consolidation, or duly authorized legal succession, has become vested with the rights and has assumed the burdens of the first corporation.

8. The Telco and SAI operated as independent business units of the SNET Corporation prior to the date of enactment of the 1996 Federal Act and will both continue to operate as independent business units when the reorganization is implemented.

9. The Telco has not relinquished any of the interconnection responsibilities prescribed under §251(a), §251(b) or §251(c) of the 1996 Federal Act or those prescribed by §16-247b(b) of the Conn. Gen. Stat.

10. The Telco will continue to retain full ownership and operational responsibility of the public switched network consistent with the provisions set forth in §16-247b(b) of the Conn. Gen. Stat. and §251(b) and §251(c) of the 1996 Federal Act

11. Section 251(c)(4)(A) of the 1996 Federal Act distinguishes between the duties and obligations for dealing with qualified telecommunications carriers and those prescribed for dealing with retail subscribers.

12. ILECs have no discretionary authority in matters related to interconnection with a qualified telecommunications carrier.

13. ILECs are free to offer all, some or none of their network facilities and/or capabilities directly to the retail telecommunications market.

14. ILECs choosing to offer a particular retail service are obligated to make available an equivalent wholesale offering to qualified telecommunications carriers at a wholesale price set in accordance with terms contained in §252(d)(3) of the 1996 Federal Act.

15. The wholesale pricing strictures prescribed in §252(d)(3) of the 1996 Federal Act apply only to those telecommunications services offered by the ILEC on a retail basis to subscribers who are not telecommunications carriers.

16. No reasons exist or evidence was presented that prevents SNET from withdrawing from the retail market coincident with its reorganization on January 1, 1998.

17. SNET's proposed treatment of corporate reorganization implementation costs, information and pricing policies is acceptable and does not warrant denial of its

request to transfer the Telco's retail customer base to SAI.

18. Transfer of certain customer information from the Telco to both SAI and other recipient CLECs coincident with the proposed realignment of retail responsibilities is essential for effective management of the retail function and in the best interests of the customer.

19. No evidentiary basis exists to impose any additional duties, obligations and/or requirements on SNET or its retail business unit beyond those currently specified by state and federal acts.

20. An en masse transfer of Telco retail customers to SAI such as that proposed by SNET is not in the public's best interest and cannot be permitted by the Department.

21. An election process permitting Telco subscribers to elect a preferred retail service provider is consistent with the intent of both state and federal acts.

22. All CLECs certified on or before October 31, 1997 will be permitted to participate in the election process for their respective MLMAs.

23. The election process will be completed by July 1, 1998.

24. Section 16-247g(b)(3) of the Conn. Gen. Stat. specifies only three conditions that may be considered by the Department when evaluating an applicant's petition, financial resources, managerial ability and technical competency, is prescriptive, and provides little room for interpretation

25. SAI's application for a CPCN in Docket 97-03-17 shall be subject to the same tests, standards and requirements applied to any nonaffiliated CLEC applicant.

26. No evidence or argument has been presented that would require the Department to revise or rescind the regulatory framework prescribed for the Telco in Docket No. 95-03-01.

27. The Telco remains subject to the duties and obligations set forth in §§251 and 252 of the 1996 Federal Act and §16-247b of the Conn. Gen. Stat.

28. The Telco has not expressed an interest in relinquishing any of the responsibilities entrusted to an ILEC under §§251 or 252 of the 1996 Federal Act and §§ 16-247b, 16-247g and 16-247k of the Conn. Gen. Stat.

29. Pricing of all future Telco wholesale service offerings will be done in accordance with pricing methodologies prescribed by the Department in Docket No. 94-10-01, Docket No. 95-06-17 and Docket No. 96-09-22.

30. SAI will operate as an independent business unit in compliance with §272(b)(1)

of the 1996 Federal Act.

31. SAI will comply with all financial accounting requirements set forth in §272(b)(2) of the 1996 Federal Act.

32. SAI will comply with all managerial requirements set forth in §272(b)(3) of the 1996 Federal Act.

33. SAI will comply with all requirements set forth in §272(b)(4) of the 1996 Federal Act relative to credit arrangements that permits a creditor, upon default of SAI, to have recourse to the assets of the Telco.

34. SAI will comply with the transactional framework set forth in §272(b)(5) of the 1996 Federal Act.

VIII. CONCLUSION AND ORDERS

A. CONCLUSION

This proceeding is the culmination of the Department's efforts to implement the statutory requirements introduced in Public Act 94-83 and the 1996 Federal Act. The Department's review of SNET's proposed reorganization of operations wherein SNET proposes to separate the retail and wholesale business units represents the first full-scale examination of SNET under the terms and conditions outlined by these acts. Based on its investigation, the Department concludes that SNET's reorganization comports with the requirements of Public Act 94-83, the 1996 Federal Act and other Department and FCC directives.

The Department also concludes that SAI is not a successor or assign of the Telco warranting treatment as an ILEC pursuant to §251(h)(1)(B)(ii) of the 1996 Federal Act. Following adoption of the proposal, the Telco will continue to act as a public service company and an ILEC, retaining full network ownership and operational responsibility. The Telco will also be subject to the provisions of §§16-247b(b) and 16-262i of the Conn. Gen. Stat., the March 13, 1996 Decision in Docket No. 95-03-01 and §§251 and 252 of the 1996 Federal Act. Pricing of the Telco's wholesale services will be unaffected by the outcome of this proceeding and should be conducted pursuant to the Department's Decisions in Dockets Nos. 94-10-01, 95-06-17 and 96-09-22. Technology commitments made by SNET to the Department in Dockets Nos. 91-10-06, 92-09-19, 94-10-04, 95-06-17, 95-11-08, 96-09-22 and 96-01-24 ensure adequate investment and innovation in the core network to conclude that infrastructure enrichment will continue on the part of the Telco in the future.

If and when SAI's application for a CPCN is approved in Docket No. 97-03-17, it will be certificated to offer to all end users a variety of telecommunications and information services including local exchange service. The record of this proceeding does not indicate that the act of offering retail telecommunications services via the SAI business unit exposes the general public to any greater risk or mistreatment than if the public were acquiring such services from any other CLEC providing such service in Connecticut. Therefore, the Department will not require any additional regulatory tests, standards or requirements beyond those specified in §16-247g of the Conn. Gen. Stat. and the March 15, 1995 Decision in Docket No. 94-07-03 be applied to SAI in Docket No. 97-03-17.

The Department is cognizant that some potential risk to the public and the future development of competition is present resulting from SNET's organizational restructuring. To address this risk, the Department has required that certain provisions be made (e.g., advanced customer billing), to provide Connecticut consumers with the opportunity to control their telecommunications decisions. Balloting will be conducted beginning March 1, 1998 and completed by July 1, 1998. The Department believes that such a program will be the most equitable process for realigning retail responsibilities within SNET.

Finally, adoption of SNET's Plan will reduce the risk of cross-subsidization between regulated and nonregulated enterprises and does not constitute a threat to the development of competition. SNET's Proposal is also consistent with the requirements contained in §272(b) of the 1996 Federal Act and that the public interest in the proposed business relationships between the Telco and SAI is sufficiently protected.

Therefore, SNET's reorganization of operations as modified above, is in the public interest and is hereby approved subject to SNET's compliance with the following orders.

B. ORDERS

For the following Orders, please submit an Original and five copies of the requested material, identified by Docket Number, Title and Order Number to the Executive Secretary.

1. No later than September 1, 1997, SNET shall file with the Department a proposed implementation plan detailing its corporate reorganization and the Telco's phased withdrawal from the retail telecommunications market between March 1, 1998 and July 1, 1998.

2. No later than December 10, 1997, the Telco shall file with the Department wholesale service tariffs reflecting its withdrawal of from the retail service market.

3. No later than 90 days prior to SAI's filing of retail local exchange service tariffs with the Department, the Telco and SAI shall file a proposed interconnection agreement with the Department.

4. No earlier than January 1, 1998, all current subscribers of special service contracts, custom service arrangements, special assemblies and/or other nontariffed noncompetitive service offerings of the Telco must be provided an opportunity to negotiate equivalent service commitments from any qualified

CLEC.

5. SAI shall assume all financial liability for the implementation costs incurred by the Telco.

6. The Telco shall segregate all costs associated with the transfer and establish an implementation account wherein all the segregated costs from the date of approval of the proposed transfer will be recorded pursuant to provisions set forth in §272(c)(3) of the 1996 Federal Act.

7. No later than January 1, 1998, SNET shall notify all retail business and residence local exchange services customers of the proposed realignment and of its intent to relinquish retail responsibilities for their service.

8. SNET shall provide to the independent ballot administrator by November 15, 1997, all information deemed necessary by the Administrator to efficiently and effectively conduct the election process in the prescribed timeframe.

DOCKET NO. 94-10-05 DPUC INVESTIGATION OF THE SOUTHERN NEW ENGLAND TELEPHONE COMPANY AFFILIATE MATTERS ASSOCIATED WITH THE IMPLEMENTATION OF PUBLIC ACT 94-83

This Decision is adopted by the following Commissioners:

Thomas M. Benedict

Jack R. Goldberg

Janet Polinsky

CERTIFICATE OF SERVICE

The foregoing is a true and correct copy of the Decision issued by the Department of Public Utility Control, State of Connecticut, and was forwarded by Certified Mail to all parties of record in this proceeding on the date indicated.

Robert J. Murphy Executive Secretary Department of Public Utility Control	Date

Attachment A

Local Exchange Carrier Selection Process

CLECs must be certified no later than 10/31/97.

Ballot solicitation to be conducted by an independent entity, selected and supervised by DPUC and paid proportionately by all CLECs

Ballots will be pre-coded with name, address and phone number. Bar-codes will be utilized when possible to facilitate processing

All participating CLECs will be issued a 3 digit identification number by lottery conducted 90 days prior to start of balloting.

Customers will receive an election package comprising a coded ballot and an informational insert developed by each of the participating CLECs (maximum: one page per CLEC). A listing of all participating CLECs capable of serving their respective needs will be included (order of appearance will be periodically rotated on a random basis).

Customer completes ballot by entering 3 digit number for selected CLEC and returns to the program administrator by mail within four weeks.

State is divided into 3 areas for administration of the process (East, Central and West).

Ballots will be issued to all active (as of February 1) business and residence customers within the East, Central and West areas on March 1, April 1 and May 1, 1998, respectively.

Ballots will be issued on May 1 to all new business and residence customers establishing service after February 1, 1998.

All ballots must be postmarked by March 31, 1998, April 30, 1998 and May 31, 1998 respectively to permit sufficient processing time and default allocation

Customers not returning a ballot within the specified time period will be assigned to a CLEC in proportion to the results of those returning ballots for each area.

Default customers will be notified by mail of their interim CLEC assignment and provided an additional 14 days to elect a preferred CLEC

Customers elections and information will be electronically transferred to the respective CLEC on a daily or weekly basis (to be determined by the recipient organization) and simultaneously to SNET (Telco) for reassignment to designated carrier (maximum 4 weeks to transfer from SNET to new carrier).

Balloting and transfer is complete with a final report on outcome (numbers & statistics) filed with DPUC by ballot administrator in July 1998.